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Tom Naylor's *A History of Canadian Business, 1867-1914:* A Comment*

I should like to congratulate Professor Naylor. He set out to write a provocative book, and he has certainly succeeded. Indeed, the margins of my copy are now liberally studded with questions great and minor. I shall not, however, raise most of these questions here, but I shall confine my remarks to the book's own terms of reference and to the area of historical work that I know best, institutionally-oriented business history.

Let me agree at once with Professor Naylor that business and government were linked in many ways in his period, as before and since; that much was done that was unethical by the standards of the time, not to say those of today; and that such noble institutions as our banks and railroads were not invariably the paragons of virtue that they (and some historians) might have us believe. I suspect, however, that there are few scholars who would be surprised by these contentions or would disagree with them. And if this were all that Professor Naylor's book had to offer, I doubt that we would hold a symposium to discuss it. Professor Naylor's publisher tells us on the book's cover that it offers much more — in fact "a fundamental reinterpretation of Canadian business and economic history", and "a completely new perspective on the development of the Canadian economy". The reviews I have seen have, to a degree at least, agreed.

Here I want to address my remarks chiefly to aspects of only one major element in that reinterpretation, the matter of banking. The book argues that because of Canadian chartered banks and government banking policy, which the banks largely wrote, Canada became commercially overdeveloped, industrially underdeveloped, dependent on foreign capital for basic long-term investments, and locked into a focus on staple extraction and export — all this because the banks stuck rigidly to a real bills doctrine. They would lend only at short term

*This comment was my contribution to a symposium on Professor Tom Naylor's recent book (*The History of Canadian Business 1867-1914*, 2 vols., Toronto, 1975) held at Quebec on June 2, 1976 under the joint auspices of the Canadian Economics Association and the Canadian Historical Association. It was not originally intended for publication, but at the editor's request I have agreed to its being printed. I thought it inappropriate to alter the text as given then, but I have added pertinent footnotes.

and would not provide the industrial capital required for Canada to develop "a flourishing, independent national entrepreneurial class'.[1] Leaving aside my uncertainty as to what such terms as "overdeveloped" and "underdeveloped" mean in this context, I should like to raise several questions about aspects of this thesis.

First, was indigenous industry really starved of capital? Sidney Pollard's classic article, "Fixed Capital in the Industrial Revolution", severely challenged the basic premise that most industry required vast amounts of fixed capital.[2] As Pollard argued, "banks provided little long-term capital because little long-term capital was demanded". Industry needed circulating capital, commercial capital, the kind that Canadian banks were evidently ready to provide. Moreover, in providing such capital to industry, the English country banks were not as uniquely important as Professor Naylor argues. Of course conditions were somewhat different later, and in Canada, but such differences must not be assumed; they must be investigated, specified, and proven to have been important. Why, finally, could mercantile intermediaries not have worked in Canada as they did in Britain, if Canadian banks *per se* were too rigid?

Had I not read volume I first, I would have been struck, in volume II, by the number of industries that had in fact appeared in Canada by 1900 or so; using the book's own descriptions, I counted at least 70 different industries that appear to have come into existence in Canada. Indeed, a good many, including cotton, canning of fruits and vegetables, iron and steel, sugar refining, furniture, meat packing, shingle-making, cement, and pulp and paper were at various times "overcrowded" or suffering from "overexpansion", "overinvestment" or "overproduction".[3] If the banks starved industry of funds, how had all these made it, some even to the extent of excess capacity? And, fundamental to the book's thesis, why were the other industries that would have existed had the banks behaved differently unable to follow the same financial paths, whatever they might have been, as those 70 or so?

One argument in the book is that municipalities helped fill the breach by bonusing industries.[4] If this was important, there ought to have been a fairly close correlation between the areas that bonused and the areas of greatest industrial concentration. On the basis of the book's account of bonusing and of Chambers and Bertram's article, "Urbanization and Manufacturing in Central Canada, 1870-1890", I very much doubt that there was such a correlation.[5] Bonusing, surely, was mainly about location, not capital formation.

Similarly, the book stresses the efforts of private banks, especially in the Maritimes, to play the crucial role that the English country banks are said to have played.[6] Yet it was central Canada, where the private banks are said to have played other roles, that industrialized. Surely if the banking system was the independent variable in the process, the Maritime industries and the private banks that sustained them ought to have done well. In fact, the evidence presented would just as easily support the view that it was the weakness of Maritime industry that led to the difficulties of the local private banks and to the failure of new financing institutions to emerge to replace them.

To look at the same issues from a slightly different angle, let us grant for the sake of argument that the banks did not lend to industry in a manner that was useful to industry. Where then did the funds that the banks lent go? The book explains the flows in this way: funds were deliberately drained away from rural and small-town Ontario, the Maritimes, much of Quebec, and even British Columbia.[7] That is there were profitable uses to which such funds would have been put in those areas had the banks been willing to lend there. So far from going to industry, except in a few favoured Montreal-organized exceptions, funds were also "drained . . . from industry", nor did funds go to the "new entrepreneurial class" of Ontario. Rather they went to merchants, with whom the country was "clogged", and to staple producers, especially on the prairies, who nevertheless had difficulty in getting money on the terms they really needed, except during the First World War, when they had money "foisted upon them".[8] Some funds, though the figures given do not seem all that large, also flowed to the United States; elsewhere overseas, however, Canadian banks were also engaged in the process of draining funds from areas that needed them.[9]

But can we not follow the flow of funds a few steps further after they've apparently gone down the drain? How did the banks, even if they lent strictly to traders and primary producers, ensure that their funds were kept "locked up" in the correct channels?[10] What, for example, did all these merchants buy and sell? Did they never use bank credit to buy from manufacturers or to make advances to them against consignments? Did they never sell various manufacturing inputs on credit? Why, for that matter, did westerners complain at being forced to buy from protected eastern manufacturers?

One can look at the banking issue from still another perspective: one of the book's basic arguments is that the banks were oligopolistic or monopolistic, and used the power that came from this to Canada's detriment. Yet the book shows any number of bank misjudgements and losses, and stresses the number of Canadian bank failures. Now that looks like evidence that the banks really did compete. Or else why, if they really had all that power, were the banks so stupid? Why not use monopoly power to avoid risk almost completely?

The book's view of banking rests on a thesis that merchants (who founded the banks) were by their basic commercial interests antagonistic to industry. Thanks to L.R. MacDonald's excellent recent critique of this idea I need not say much about it.[11] But it is clear that in many respects industry and commerce were complementary. Certainly the import-export merchants I have studied in the 1850s and 1860s had supporting as well as competitive relationships with the still embryonic Upper Canadian industry of the time. As an example, Isaac Buchanan's large firm, which was amply supported by the banks, imported Scottish pig iron and sold it to Canadian foundries on eight months credit.[12] New Canadian industries had of course to be complementary to those of the wider Atlantic world, and that limited the industrial paths that were open. Such limits indeed are at the heart of Professor Naylor's unhappiness at what did happen in Canada after 1870, but they resulted much less from policy than from prior development elsewhere (of which Canadian development was itself a consequence) and from the workings of comparative advantage.

I should like now to turn away from matters of banking for a moment, to raise some questions about evidence. Although there are limits to the amount of research that anyone can be expected to do on a project, I did regret that, though one reference dates from as recently as 1975,[13] the bibliography and footnotes suggest that research for the book largely stopped about 1970. Thus, the book does not take account of the considerable body of highly pertinent thesis and published literature that has come along since 1970. More significant, as is indicated by my references to the articles by Pollard and by Chambers and Bertram, both published in 1964, neither of which is cited in the bibliography, a number of extremely important pre-1970 secondary items are also missing from the bibliography.[14] These gaps do not finally enhance one's confidence in the book's arguments.

Plainly Professor Naylor has read a large body of published primary material. It is a problem, however, to know just how to interpret such material as the published comments of businessmen. I have at hand an editorial from the Toronto *Globe & Mail*, May 28th, 1976, headed "Budget plays dangerously with profits". On the basis of this criticism, can we conclude that business is suffering, and that the 1976 federal budget really hurt commerce and industry? I suspect many would be skeptical. Similarly, can nineteenth-century industrialists' complaints, say, lack of bank accommodation be taken as literal truth, and if so when, for whom, and for how long? In the book, I was surprised also to find charges taken as proven, highly partisan claims (such as from the *Globe* on reciprocity) readily accepted, and offers and bargaining postures mixed with actual transactions.[15] Then too, I had never realized before that Goldwin Smith was a leading nineteenth century Canadian expert on the financial practices of the Roman Catholic Church in Quebec.[16] In many cases, the evidence offered will bear other interpretations, or other evidence is required to confirm the viewpoint taken. Thus, there are many places where Professor Naylor's interpretation of specific points is quite different from the one that I would offer.

Limitations of time and space permit me only one example.[17] The book notes that for the banks to increase their note issue, they had to sell more shares, and this "would threaten a reduction in the amount of control exercised by a few top financiers. To resolve the problem, the Bank Act was so written as to give the existing stockholders of a bank the right of first refusal on any new issues of stock; and virtually all new issues before the war were absorbed internally."[18] Thus, a normal business practice is portrayed as a financiers' conspiracy, though how this particular amendment would help the presumed monopolists, given that the Canadian bank shares were regularly traded on stock exchanges, I am not quite sure. Still, I have done some research on published bank shareholders lists. My examples are from 1913 when, presumably, the "top financiers" were in full control.[19] For the Bank of Montreal, with 160,000 shares outstanding, over 3,100 shareholders are listed. The largest, the Royal Trust Company, acting mainly in its role as an executor, held, in 31 accounts, almost 5%; the next largest, Lord Strathcona, held less than 2%; and the 12 largest holdings together counted 16% of all shares. For the Bank of Commerce, with 300,000 shares, over 5,000 shareholders are listed, the largest of them the estate of the late W.C. Craig of Vicksburg, Mississippi, with 1.6% of the shares; George Cox had a little less; Sir Edmund Walker, the President, had less than ½ of 1 per cent; Joseph Flavelle, also an important director, had 2/10ths of 1 percent. The pattern is similar for other major banks. Some of these great men did control banks, but it was not by virtue of tightly held share monopolies. Professor Naylor's argument about the Bank Act amendment is, quite simply, untrue.

As this issue demonstrates, it is a central weakness of the book to depend on anecdotal evidence on issues that really demand more precise specification and quantitative evidence (and on some of which more than a little quantitative evidence is already available). Even the statistics that are provided can confuse.[20]

These remarks will indicate the extent and some of the ways that Professor Naylor's book is provocative, to me at least. Frankly, I think the book does not sustain its central theses, and therefore does not offer a defensible overall view of the evolution of the Canadian business system in its period. Rather than a "new perspective", the book offers a return to that of Gustavus Myers, with its virtues and all its defects;[21] it is a return to the argument that great consequences must have policy causes;[22] and it is a return to a viewpoint long dear to the hearts of many in Alberta, where I grew up, namely that the banks are always to blame.

I do not think it is my place, here, to suggest alternative interpretations for Professor Naylor's evidence. I would, however, suggest that the assumption that Canada did not sufficiently industrialize must be further specified or abandoned. I suggest too that we should look for evidence of what the banks and the businessmen did as well as what they said. More generally, we should see the banks as part of a broader system, with, collectively, a considerable role in it, but with nothing like the independent power that is alleged here. If this be so, then their behaviour becomes symptomatic or reflective of broader economic forces and trends, rather than independently causal, as in Professor Naylor's analysis.

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NOTES

[1]T. Naylor, *The History of Canadian Business, 1867-1914,* 2 vols. (Toronto, 1975), Vol. I, p. 38. (Hereafter cited I and II).

[2]*Journal of Economic History*, xxiv (1964), pp. 299-314. Quoted passage from p. 308. See also F. Crouzet, "Editor's Introduction" in his *Capital Formation in the Industrial Revolution* (London, 1972), pp. 1-69.

[3]e.g. II, pp. 104-5, 132-3, 137, 177-8, 186-7, 189, 193, 230, 292.

[4]II, chapter xiii.

[5]Canadian Political Science Association, *Conference on Statistics* (1964), pp. 225-58.

[6]I, pp. 120-5.

[7]I, pp. 15, 101-4.

[8]Quotes from, respectively, I, pp. 14, 109, 79; II, p. 290.

[9]II, chapter xvi.

[10]I, p. 4.

[11]"Merchants against Industry: An Idea and its Origins", *Canadian Historical Review*, lvi (1975), pp. 263-81.

[12]D. McCalla, "The Buchanan Businesses, 1834-1872: A Study in the Organization and Development of Canadian Trade" (unpublished D. Phil. thesis, Oxford University, 1972), pp. 185, 237-9.

[13]I, p. 181 n. 30.

[14]The following are a few examples of Canadian sources of evident relevance to the book's themes that are not referred to in the bibliography or notes: Fernand Ouellet, *Histoire Économique et Sociale du Québec, 1760-1850* (Montréal, 1966); O.J. Firestone, "Development of Canada's Economy, 1850-1900", and P. Hartland, "Canada's Balance of Payments since 1868" in *Trends in the American Economy in the Nineteenth Century*, Studies in Income and Wealth, vol. 24 (Princeton, 1960), pp. 217-46, 717-53; J.H. Perry, *Taxes, Tariffs, & Subsidies: A History of Canadian Fiscal Development*, 2 vols. (Toronto, 1955); Alan Wilson, *John Northway, A Blue Serge Canadian*, (Toronto, 1965); Ian Drummond, "Canadian Life Insurance Companies and the Capital Market, 1890-1914", *Canadian Journal of Economics and Political Science*, XXVIII (1962), pp. 204-23; P.J. George, "Rates of Return in Railway Investment and Implications for Government Subsidization of the Canadian Pacific Railway", *Canadian Journal of Economics*, I (1968), pp. 740-62; G.W. Bertram, "Historical Statistics on Growth and Structure of Manufacturing in Canada, 1870-1957", Canadian Political Science Association, *Conferences on Statistics, 1962 & 1963*, pp. 93-151; T.D. Regehr, "The Canadian Northern Railway: Agent of National Growth, 1898-1911", (unpublished Ph.D. thesis, University of Alberta, 1967); P.E. Roy, "The British Columbia Electric Railway, 1897-1961", (unpublished Ph.D. thesis, University of British Columbia, 1969); J.J. Brown, *Ideas in Exile, A History of Canadian Invention* (Toronto, 1967).

[15]These are, of course, inescapable problems with such sources as House of Commons *Debates*, newspapers in a highly partisan age, the business and agrarian press, and committee and commission evidence. Historians have normally to make appropriate discounts and adjustments, as well as to seek confirming evidence of other types whenever possible. My argument is in essence that Professor Naylor has used such sources in a very idiosyncratic and often incautious manner.

[16]e.g. I, p. 219.

[17]The extra space offered here permits mention of two further examples that lend themselves to brief consideration. (1) The account of the revision of the tariff in 1907 and the importance of it in Canadian business development (I, p. 253; II, p. 186) is not confirmed by other sources. See O.J. McDiarmid, *Commercial Policy in the Canadian Economy* (Cambridge, Mass., 1946), pp. 220-2; and W.A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, new ed. (Toronto, 1964), p. 67. (2) The account of bankruptcy and insolvency legislation (I, pp. 80-1) implies that the Province of Canada's legislation on the issue dated only from 1864. In fact, not only was there a longer history of legislation on the issue, but it was a more difficult and complex problem to resolve than the book's account, based on some excerpts from the business press, suggests.

[18]I, p. 72.

[19]Canada, Parliament, *Sessional Papers*, 1914, No. 6.

[20]I shall add an example. Life insurance companies' holdings of Canadian municipal bonds, we are told (I, pp. 192-3), "decreased substantially" between 1881 and 1911, percentage of holdings figures being offered in confirmation. By my reckoning, however, the holdings actually increased 8-fold, while total portfolios increased by much more (27-fold). The text ignores the large absolute increase and does not make plain that the only decrease was a relative one, for which there could be many explanations.

[21]Gustavus Myers, *A History of Canadian Wealth*, first published in 1914 and recently republished (Toronto, 1972) with a useful introduction by Stanley Ryerson.

[22]e.g. II, p. 105.